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# The Challenge of Economic Reform in the Arab World:

## Toward More Productive Economies

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## About the Author

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# Contents

## Introduction

The issue of economic reform in the Arab world is surrounded by many key questions. How do we define meaningful economic reform and what does it entail? To what extent has such economic reform advanced in the region? What is needed to accelerate the process? Are ruling elites motivated to undertake real economic reform and are they capable of doing so? Are state institutions able to implement economic reform and handle its consequences? Is it possible to have economic transformation without political reform? Furthermore, in individual countries, what can we say about the timing of reform—has it been planned out and phased in or pushed through quickly in response to crises? Who have been the winners and losers? What has been the interplay between economic and political reform—have they proceeded independently or can we detect a direct connection? What has been the role of external rents—whether oil revenues, remittances, or bilateral aid—in the speed or slowness, the depth or shallowness, of the process?

Providing in-depth answers to all or even most of these questions is beyond the scope of this paper, especially given that the motivation and factors shaping reforms and determining their outcomes are not uniform across the region. In addition, the structures of national economies differ, as does the nature of the social contract. However, this paper, an outgrowth of the Carnegie Endowment's interest in economic reform in the Middle East, provides a conceptual outline for assessing the changes up to this point. It aims to provide a framework for assessing economic reforms in terms of the motivation behind them, their nature and extent, and the success and/or effects of their implementation. This framework is intended to pave the way for a set of country case studies that will examine these issues in depth in each country and answer some of the questions raised above. It is only through case studies that an adequate understanding of the key drivers and obstacles to economic reform can be understood. Nevertheless, one can identify broad trends in the region and explore the basic concepts and categories involved in each.

## Rentier and Semi-Rentier Models

To understand how economies of Arab countries arrived at their present condition, one must go back to the 1950s. From then to the 1970s, the state led economic development in much of the Arab world. National leaders put the state forward as the primary player in allocating and managing resources and in determining economic outcomes. Regimes restricted private investment. Leaders justified state domination of the economy by claiming that the private sector was too weak to lead national growth, too compromised to develop strategic industries, and incapable of creating enough jobs and providing for the welfare of the masses.

Economies in the region have been divided into two basic types, both of them state-dominated, relatively unproductive, and extremely vulnerable to external shocks. The first type is a rentier model, which best describes the highly oil-dependent economies of the Gulf Cooperation Council states—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, as well as Libya and—to a lesser degree—Algeria. In these countries, the bulk of GDP as well as of government revenue is generated by exports of a single natural resource—petroleum products—and is based not on productivity of the economy but on the large gap between the cost of production and international prices. In such economies, production is usually limited to a very small fraction of the population, while the remaining people are on the receiving end of the equation. State spending depends not on domestic taxation but on external rents. The lack of diversification in such economies renders them volatile; they inflate and deflate according to price swings on the global commodities market and other shocks from the outside world.

The second type of economy found in the region is the semi-rentier model, which covers most of the remaining Arab states of the Levant and North Africa. Such economies also suffer from low productivity. Though they appear more balanced than the rentier type because they do not rest on a single-resource export, they are heavily dependent on a different kind of rent: transfers in the form of remittances from expatriate workers, foreign aid, and bilateral or multilateral loans.[1]

Thus rents have shaped the economies of the oil-rich and non-oil-rich countries of the region, as well as the nature of state–society relations. Assessing the impact of these rents on economic development is central to the analysis of economic reform in the Arab world and deserves careful attention. Precisely how have these rents been allocated and to achieve what objectives? The main concern in this regard is to understand the extent to which these rents have been productively invested or have been wasted in unproductive activities and used in sustaining regimes and buying loyalty. This variability has important policy implications. Where rents have been used to promote economic transformation, the need will be for policy intervention to aid and accelerate the process. Where rents have been wasted or politicized, however, more fundamental economic reform will be needed.

A cursory view of the region's economies confirms that neither oil-based nor non-oil-based economies have undergone comprehensive economic reform of a kind that would promote strong productivity, create long-term sustainable growth and dramatically boost employment. Rather, oil revenues and other forms of rent have been used as means to temporarily cushion economic and political pressures, preserve dominant elite privileges, and buy loyalty to the state. Despite some efforts at economic reform—usually in response to acute internal crises or foreign pressure—these reforms have neither been sustained nor constitute part of a comprehensive economic plan.

## Phases of Economic Reform

In the mid-1980s, movement toward reform of the state-dominated model of development gained momentum, especially in countries that were not oil exporters. This momentum was driven by three interlinked factors: the first was the visible failure, by the mid-1980s, of this model to provide sustained economic growth, adequate employment levels, and sufficient welfare benefits to the general population; the second is the real decline in rents due mainly to declines in oil prices and consequent declines in remittances. The third and most important factor was largely caused by elements of the first and second, and is characterized by the emergence of acute public finance crises in most Arab countries, which necessitated urgent economic responses.[2]

In the end, most of the reforms undertaken as a result of the financial crises of the mid-1980s were externally driven and designed, part of the stabilization and structural adjustment programs prescribed by the International Monetary Fund and the World Bank. Those programs followed the principles of market reform and reduction of the state's role in the economy. Reforms focused on four main areas: cutbacks in government spending, privatization of state-owned enterprises, reduction of barriers to trade, and liberalization of interest and exchange rates. Elements were implemented piecemeal and to different degrees in different countries.

The first-round reforms had many flaws. Nowhere were they part of a comprehensive economic plan. Nowhere have they been sustained. In addition, reform programs neglected the role of institutions in economic development, targeting instead government spending, market conditions, and ownership of resources. Yet in the experience of many developing and developed countries, it was strong institutions that provided the underpinning for successful economic reform and sustainable growth. Growing awareness of that finding led to adjustments in the reform process in some Arab countries in the late 1990s and early twenty-first century to include more attention to good governance, an effective judiciary, corporate governance, and other institutional issues.[3]

A brief look around the region's economies today will confirm that the reforms thus far have not fundamentally altered the state-dominated economic model. Nor have they notably improved trade substantially or put any country on a sustainable path of economic growth that could keep pace with expanding population.

Figures for 2005 show that total trade of the Arab countries represents only 4 percent of world trade; exports from the Arab world make up only 5.5 percent of global exports, of which oil accounts for 90 percent.[4] At the same time, social and economic problems including unemployment, poverty, and public debt have continued to mount. The Middle Eastern and North African (MENA) countries have the highest unemployment rate in the world (12.2 percent in 2006) as well as the lowest employment-to-population ratio (47 percent in 2006). Many countries of the region have watched GDP per capita decline. In Saudi Arabia, GDP per capita fell from $22,634 in 1980 to $12,556 in 2000. In Jordan, over the same period, per capita GDP dropped from $4,308 to $3,907. Public debt also hit critical levels in several countries: in Lebanon, for example, it reached $42 billion in 2006, approximately 186 percent of GDP; in the same year in Egypt it reached $113 billion, or 110 percent of GDP.[5] In addition, volatility in external rents and vulnerability to external and internal shocks increased sharply in many countries of the Arab world. Most non-oil-producing, labor-abundant countries in the Arab world experienced deficits in the public-sector budget, ranging in 2005 from 3 percent of GDP in Morocco to 9 percent in Lebanon and 19 percent in the West Bank and Gaza Strip.

Low productivity is still dragging down economic performance in the Arab world, a situation attributable mainly to the dominance of the state in the economy and restrictions on private investments. In 2005, total revenues of government in the Arab world represented more than 43 percent of GDP, while government expenditures accounted for more than 30 percent of GDP. Data available for 2000 show that public-sector employment in MENA countries accounted for 33 percent of total employment, compared with only 13 percent in Latin America and the Caribbean, 14 percent in Organization for Economic Cooperation and Development (OECD) countries, and 18 percent in the rest of the world, excluding China. Public-sector wages and salaries in the MENA accounted for 38 percent of government current expenditures in 2004.[6]

In its most recent report on *Doing Business in the MENA*, the World Bank highlights the fact that Arab countries lag behind many countries of the developing and developed world in creating a healthy, enabling environment for business. The report stresses that to promote private investment, much reform is still needed in government regulations, institution building, property rights, and taxes.[7]

Examination of various efforts in the region suggests that three main factors are responsible for the limited economic reform in the Arab world. First, despite apparent consensus among the region's governments, business leaders, and civil society as well as international financial institutions that economic reform is urgently needed, there is no common understanding of what "reform" means and entails—much less agreement on a common plan of action. Second, states and institutions lack the capacity to design, implement, and manage reform programs. Thus the state often has been unable to mitigate the negative side effects of some reforms, thus creating a popular backlash against the entire process. Third, established elites often have resisted reforms that would harm their economic or political interests, and they and their privileges remain entrenched. While reform programs since the 1990s have been more sensitive to the issues of governance and institution building than were their 1980s counterparts, the convergence of economic, political, social, legal, and cultural factors is still not adequately addressed.

The series of papers that will be undertaken over the next two years will examine the various factors mentioned above through case studies of individual countries. Each paper will evaluate economic reform programs that have been introduced in a particular country, examine their causes and consequences, and suggest ways forward. The remainder of this paper discusses the three main impediments to economic reform in the Arab world, and identifies areas where the analysis of individual countries will proceed.

## Hollow Consensus and Competing Perspectives

There is a growing consensus (at least at the level of public statements), among governments, business leaders, civil society, and international financial institutions that economic reform in the region is imperative. Arab leaders have gathered to declare their support for reforms, as in the Tunis Summit Declaration of 2004, the Arab Business Council Initiative launched at the World Economic Forum meeting in Jordan in 2004, the Alexandria Library Statement, and the Sana'a Declaration. At the international level, the concern has been expressed in declarations and programs that include the G8 Initiative and the Middle East Partnership Initiative (MEPI).[8]

These initiatives have reinforced the discourse on the need for economic reform, but action is more difficult than words. There is confusion about how to go about such reform in the region. Beyond that, lack of a genuine or sustained commitment to reform has delayed implementation of reforms and in some cases brought them almost to a halt.

Understanding the discourse on economic reform in any country requires in-depth answers to at least the following questions: what is the understanding of economic reform by the various players in that country? Are governments trying to be selective in terms of reform components? Is the reform that is proposed "real" or "cosmetic"? Have benchmarks been established to measure the success of the proposed reforms? What are the real motivations behind the proposed reforms? How do various sectors of society view the reforms?

Developing a productive economy that can deliver sustained growth, create a large number of worthwhile jobs, and significantly advance the region's socioeconomic conditions means not just implementing superficial fixes, but changing the rules of the game. It means exchanging a model dominated by the public sector for one in which the private sector would be the main engine of growth, changing from a closed to an open economy, from an economy highly dependent on volatile external rents to a much more diversified, stable economy. In such an economy, the state would focus on designing and implementing economic policies that create an enabling environment for the private sector. Public revenues would be based on taxation rather than external rents; hence an increase in economic growth would mean an increase in public revenues. In other words, we are talking about a transformation from a rentier or semi-rentier economy to a productive economy. The transition to a more productive model in the Arab world entails changing the nature of the relationship between state and economy so that the state focuses on overseeing the rules of the game without direct involvement in the economy. Studies of reforms thus far must examine the changes from this standpoint, to see whether they relate to calculated systematic reform or are merely improvised responses to crises.

Different actors will of course have different perspectives on the reform process. One would expect, for instance, that regimes would consider reforms successful if they temporarily eased social and economic emergencies and so helped the regime stay in power. International financial institutions might view reforms as successful if they generated good macroeconomic outcomes such as steady growth, low inflation, and reduction of public debt. The private sector might adjudge them successful if they brought more business opportunities and higher profits. In contrast, civil society and the general public might consider reform successful only if it resulted in real improvement in the standard of living and a more equitable distribution of wealth.

It is also important, in studying the reforms in each country, to inquire into factors that powerfully affect the perception of the reform process's legitimacy, and thus support for it in society. Observers should look at the extent to which the various stakeholders—the private sector, civil society, citizens—have been involved in discussion and development of reform policy. Is economic reform moving from being a technocratic concern of elites to being a national concern—shifting, as it were, from the back pages to the front pages? Involvement of a broader spectrum of society strengthens policy by addressing the concerns of major groups before they create practical problems, and it creates a sense of ownership of the reform. If changes in a particular country are seen as sensitive to the challenges facing that country and are supported by sectors and social groups that will be affected by them, then the process has a much better chance. In sum, have government, business leaders, and civil society been able to agree on common principles, a work plan, and a mode of implementation for reforms? And once implementation is under way, observers should scrutinize whether it is accompanied by adequate transparency and accountability.

## Measuring Reform

As discussed above, real reform means addressing the economic challenges facing a country in a holistic and systemic way, and transforming the underlying economic foundations. It means reducing the various types of rents accruing directly to regimes and eliminating the state's ability to determine winners and losers. Real economic reform cannot be hesitant, selective, reversible, or incomplete.

Real reform can, however, be gradual and sequential, because it is part of a multidimensional process. Change in one area might require prior or subsequent change in another; economic reform needs to take into account the complex interconnectedness of political structures, governance, and judicial institutions, as well as other social institutions and cultural patterns. Reform cannot be achieved all at once or overnight, but it does need to be conceived of as an interrelated set of wide-ranging changes that leads to the overall goal of establishing a dynamic and highly productive economy. Experience shows that success or failure of one reform often depends on complementary reforms in other areas. For example, privatization of public enterprises in a country like Syria or Egypt without revising labor market structures could lead to a decline in productivity and increasing unemployment.

The outcomes of reform will not be immediately or uniformly positive. The experience of many countries in both the developing and the developed worlds shows reforms often have painful and negative effects, particularly in the short term. It is important, however, that reformers develop a time frame in which benefits might be expected, and milestones as well as other measures that they and outside analysts can use for evaluating progress. In addition, while economic reform clearly requires parallel reform in other sectors, it is less clear what the sequencing should be. That uncertainty may delay or eliminate benefits and cause additional economic and social pain until the implementers of reform make adjustments that bring various aspects of society into line.

Regimes confronting economic crises or other urgent pressures have a choice between systemic change that treats the causes and more cosmetic changes that treat only certain symptoms of the problem. The latter can provide strictly temporary relief, but they are easier to make and to live with in the beginning. In choosing, regimes in the Arab world are caught between two contradictory imperatives: maintaining stability, their own rule, and the political and economic status quo; and tackling chronic socioeconomic problems by implementing fundamental reforms that will move the country toward a more productive economy.

So far, the first imperative seems to have won out, and governments have taken only feeble steps in the direction of genuine reform. Elites have focused on preserving their powers and privileges, and governments have chosen to implement uncontroversial programs and make minor adjustments within the established state-dominated model rather than beginning economic transformation.

## State and Institutional Capacities

Their focus on remaining in power rather than enacting reform raises concerns about states' ability to carry off a fundamental reform of the economy. It also casts doubt on their ability to make adjustments in changes that are having adverse effects, rather than simply abandoning them. The case studies will offer examples that highlight the strengths and weaknesses of the state and its various institutions in the Arab world, and the implications for economic reform.

Reliance on external rents—oil revenue in the case of oil-exporting countries, and remittances from abroad, strategic aid, and loans in the case of non-oil-exporting countries—is the core of the problem. It has made Arab states vulnerable to external shocks and dependent on international financial institutions for loans to compensate for lower revenues. Even more basically, states' building of the state–economy relationship around those rents has compromised their ability to lead fundamental economic change. That does not mean that states in the Arab world are not powerful—indeed, they have been well able to resist strong internal and external pressures for reform. Nor are we concerned here with regime type. But for current regimes, their interests lie elsewhere than in deep economic reform.

The experience of developing countries shows that successful economic reform that creates sustained, equitable economic development cannot be undertaken in isolation from sound institutional reform. [9] Thus, improving state and institutional capacities does not mean strengthening the existing state model in the Arab world. Rather, it means, on one hand, improving governance and the ability of state institutions to implement economic reform programs and influence reforms' outcomes, and on the other hand, providing incentives and increasing opportunities for reform, as well as limiting elites' ability to manipulate the process.

A consensus is forming among international financial institutions, economists, and aid practitioners that lack of progress in improving governance lies at the very heart of most of the challenges currently impeding economic transformation in the Arab world.[10] Progress is most needed in two areas: public-sector performance and public-sector accountability. With public-sector performance, the main concerns are efficiency of the bureaucracy, rule of law and the judicial system, protection of property rights, control of corruption, the quality of regulation, and the strength of enforcement mechanisms. Challenges in public-sector accountability are limitations in citizens' access to government information and weak mechanisms for holding political leaders accountable. Little government information and data is accessible to the public in the Arab world; most national media are either government-owned or carefully monitored, and even Internet use is controlled in some countries.

Most countries in the Arab world have experienced some institutional reform over the past few years. The analysis of individual countries will investigate the implications of existing institutional arrangements for economic reform efforts, and will seek to clarify whether that country faces a trade-off in dealing with some aspects of institutional reform rather than others. The main question in individual countries is how the distribution and disposition of institutional power has helped or hindered economic reform.

## Resistance to Reform

It is normal for economic reform programs to face some resistance, at least from groups that are detrimentally affected by them. Resistance can take two forms, each of which has a different impact on reforms. The first, which can be called "constructive resistance," comes from non-privileged strata of society negatively affected by reform. Such resistance can actually be beneficial: it pressures policy makers to pay attention to the needs of people whom they would otherwise ignore; it pushes policy makers to involve various strata of the society in the discussion, formulation, and implementation of reform; and finally, it calls for the creation of effective social safety nets to compensate and protect people adversely affected by reforms until more economic opportunities can be opened up for them. However, the weakness of civil society and the absence of political parties in many countries in the Arab world have made such constructive resistance less effective than it has been in many other developing countries. Thus far, government economic reform policies have evoked only weak, untargeted protests, and general suspicion and hostility toward reformers.

"Destructive resistance," the second type, comes from elites who enjoy close relations with regimes and benefit from the prevailing economic arrangements. Their resistance is destructive because it can prevent reforms from being proposed in the first place, or block changes' implementation, or otherwise influence and skew the reform process in self-serving ways. In such situations, the need for some political reform to precede economic reform becomes quite clear. Thus important issues to be investigated in the country studies are who the winners and losers in any reform are, and to what degree their resistance is constructive or destructive.

However, distinguishing between constructive and destructive resistance to reform is made more complex due to prevailing conflicts. Policy makers in the MENA have pointed to major regional conflicts, particularly the Arab-Israeli conflict and the recent occupation of Iraq, as reasons or excuses for postponing fundamental economic reform. The main argument they put forward is that economic reform under such circumstances risks generating extreme political instability. While that claim might have some merit in some cases, it cannot be used as a blanket excuse for postponing reform. Nevertheless, it is important to address the matter in individual cases, as conflict plays an important role in some countries—certainly in Palestine, Iraq, and Lebanon. But does regional conflict really stand in the way of genuine economic reform in countries like Jordan, Syria, or Egypt?

The dominant view in the Arab world is that the issue has been used as an excuse for maintaining the status quo and avoiding reform. The case studies of individual countries will investigate the possible interconnections between regional conflicts and the potential vulnerabilities that economic reform might create.

## Political and Economic Reform

The relationship between political and economic reform has provoked much debate among policy makers, social scientists, and aid practitioners. Is political reform a precondition for economic reform? The experiences of many countries around the globe, past and present, do not provide a definitive answer.

Western European countries after World War II adopted democratic systems with clear economic objectives and succeeded in effecting economic transformations. More recently, economic reforms in India and Ireland in the 1990s both enjoyed the benefits of democracy.

On the other hand, the economic transformation of East Asian countries (as well as countries in other regions, such as Chile in the 1970s) occurred while those countries were still suffering from authoritarian government, large-scale corruption, and a marked absence of public participation and accountability. Their bureaucracies were insulated from day-to-day politics. Yet in the final analysis they succeeded in transforming their economies, improving their position in the international market, attaining high economic growth, and reducing widespread poverty.

In the context of the Arab world, there are two schools of thought in this debate. The first argues that political reform must precede economic reform, as changes in the logic and structures of authoritarian government are necessary to create the enabling environment required for long-lasting economic reform. In contrast, the second school argues that authoritarian regimes are better equipped than democracies to implement large-scale economic reform. In the Arab world, the debate is further complicated by the public-sector domination of the economy, by extensive penetration of the private sector by government elites, and by regimes' control of oil and gas revenues and other rents.

Within each country, it will be important to examine the particular relationships between the regime and the economy, and to examine the way in which fundamental economic reform would affect the regime's elites and interests. The debate over whether authoritarianism or democracy is a prerequisite for, merely useful to, or works against fundamental economic reform will have to be closely examined in each case, and it is likely that different answers will emerge for different countries. If the results for different countries are similar, perhaps one could then draw conclusions about whether it is necessary for fundamental political reform to precede economic reform in the wider Arab world.

## The Way Forward

Assessing economic reform efforts in the Arab world requires not only an understanding of the existing economic foundations and state-economy relationship but a clear definition of meaningful economic reform and how progress toward it can be measured. This paper has highlighted the kinds of economic challenges, motivations, and external and internal sociopolitical contexts that influence reform efforts. These elements vary from one country to another in the region. What is considered cosmetic reform in one country, therefore, may be considered very real in others. Thus this paper emphasizes that evaluating reform efforts in the Arab world requires in-depth assessments of individual countries' experiences in implementing economic reform programs.

The issues discussed in this paper set the general framework for analyzing economic reform in individual countries. An assessment of economic reform efforts will be undertaken for seven countries in the Arab world. The selection of these countries will aim to include countries of varying size, economic type, regime type, and geographic subregion. This will allow the work on the case studies to be more meaningful, and it is to be hoped that the research will enable us to draw more general conclusions for economic reform in the Arab world as a whole.

# Notes

1. For more about rentierism in the region, see Hazem Beblawi, "The Rentier State in the Arab World," in Hazem Beblawi and Giacomo Luciani, eds., *The Rentier State* (London: Croom Helm, 1987), pp. 49-62. See also Rolf Schwarz, "State Formation Processes in Rentier States: The Middle Eastern Case," paper presented at the Fifth Pan-European Conference on International Relations, The Hague, September 2004; and Oliver Schlumberger, "Rents, Reform, and Authoritarianism in the Middle East," in Michael Dauderstadt and Arne Schildberg, eds., *Dead Ends of Transition: Rentier Economies and Protectorates* (New York: Campus Verlag, 2006).

2. These trends are not homogeneous across countries, so individual examples are in place: worker remittances received by Egypt declined by 3.7 percent annually from 1990-92 to 2002-04 (see Richard Adams, "Migration, Remittances and Development: The Critical Nexus in the Middle East and North Africa," paper presented at the United Nations Expert Group Meeting on "International Migration and Development in the Arab Region," Beirut, Lebanon, May, 2006). In addition, in Morocco, aid per capita (in current U.S. dollars) fell from an average of $36.8 in 1990-94 to $20.6 in 1995-99 and $16.5 in 2000-2003. In Lebanon, the volume of oil and oil-derivative imports has grown by more than 25 percent annually since 1999, compared to 4 percent annually for manufactured imports (see the World Bank, *World Development Indicators* [Washington, D.C.: World Bank, 2005]).

3. For a regional overview of the role of institutions in economic development, see Dirk Vandewalle, "Institutions, Resource Curses, and Economic Reform in the Middle East and North Africa," available at www.worldbank.org.

4. Oil-exporting countries include Algeria, Bahrain, Iraq, Kuwait, Libya, Saudi Arabia, Oman, Qatar, and United Arab Emirates. Author's computations are based on League of Arab States, Arab Fund for Economic and Social Development, Arab Monetary Fund, and Organization of Arab Petroleum Exporting Countries, *Joint Arab Economic Report 2006* (in Arabic), September 2006.

5. Data from International Labor Organization, *Global Employment Trends—Brief* (Geneva: International Labor Organization, January 2007); ILO Key Indicators of the Labor Market [KILM], 4th ed., CD-ROM version (International Labor Organization, 2005); Dany Jaimovich and Ugo Panizza, "Public Debt Around the World: A New Data Set of Central Government Debt," Inter-American Development Bank Working Paper no. 561 (March 2006).

6. See World Bank, *Middle East and North Africa Region: Economic Developments and Prospects 2006: Financial Markets in a New Age of Oil* (Washington, D.C.: World Bank, 2006), pp. 89–92; and World Bank, *Middle East and North Africa Region: Economic Developments and Prospects 2005: Oil Booms and Revenue Management* (Washington, D.C.: World Bank, 2005).

7. The *Doing Business* reports rank regions by their progress in reforming the business environment. The MENA has been ranked fourth after Eastern Europe and Central Asia, OECD high-income countries, and sub-Saharan Africa. For more details about the obstacles to doing business in the Arab world, see World Bank, *Doing Business 2007: How to Reform* (Washington, D.C.: World Bank, 2006).

8. Most of these initiatives and declarations have emphasized the need for economic reform as well as political and social reforms. For example, the U.S.-Middle East Partnership Initiative was launched by the U.S. administration in 2002 and focuses on the areas of political, economic, education, and women's empowerment. It has contributed more than $293 million in four years. In addition, the G8 Plan of Support for Reform was issued in Sea Island on June 9, 2004; it refers to "reform priorities identified by the region, including by the Arab League Summit Tunis Declaration, the Alexandria Library Statement, the Sana'a Declaration, and the Arab Business Council Declaration."

9. See Mushtaq Khan, "State Failure in Developing Countries and Strategies of Institutional Reform," in Bertil Tungodden, Nick Stern, and Ivar Kolstad, eds., *Towards Pro-Poor Policies: Aid Institutions and Globalization—Proceedings of World Bank's Annual Bank Conference on Development Economics, 2002* (Oxford: Oxford University Press and World Bank, 2004). See also Mushtaq Khan, "Rent-Seeking as Process," in Mushtaq Khan and K. S. Jomo, eds., *Rents, Rent-Seeking and Economic Development: Theory and Evidence in Asia* (Cambridge: Cambridge University Press, 2000).

10. See the World Bank, *Better Governance for Development in the Middle East and North Africa: Enhancing Inclusiveness and Accountability,* MENA Development Report (Washington, D.C.: World Bank, 2004), pp. 199-210; see also Mustapha Nabli, "Institutional Reform for Economic Growth in the Arab Countries," paper presented at the IMF/AMF High-Level Seminar on Institutions and Economic Growth in the Arab Countries (Abu Dhabi, United Arab Emirates, December 19-20, 2006); and Hazem Beblawi, "Political and National Governance Reforms," paper presented at the IMF/AMF High-Level Seminar on Institutions and Economic Growth in the Arab Countries (Abu Dhabi, United Arab Emirates, December 19-20, 2006).

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